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STATE OF MONTANA
DEPARTMENT OF PUBLIC SERVICE REGULATION

Report on Examination of
Financial Statements
Fiscal Year Ended June 30, 1978



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STATE OF MONTANA
DEPARTMENT OF PUBLIC SERVICE REGULATION

Report on Examination of
Financial Statements
Fiscal Year Ended June 30, 1978

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ELECTED AND ADMINISTRATIVE OFFICIALS

PUBLIC SERVICE COMMISSION

	<u>Term Expires</u>
Gordon E. Bollinger, Chairman	January 1983
Clyde Jarvis	January 1983
Thomas J. Schneider	January 1981
James R. Shea	January 1981
George Turman	January 1981

ADMINISTRATION

William J. Opitz	Executive Director
Madeline L. Cottrill	Commission Secretary and Administrator, Centralized Services Division
Wayne Budt	Administrator Transportation Division
Frank Buckley	Administrator Utility Division

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Public Service Commission is included in the back of this report.

	<u>Page</u>
Record legal publication reimbursements as revenue.	3
<u>Agency Reply:</u> Concur. See page 33.	
Close its contingent revolving fund and use the state warrant system for all disbursements.	3
<u>Agency Reply:</u> Concur. See page 33.	
Properly reimburse personal car mileage in accordance with section 2-18-503, MCA.	4
<u>Agency Reply:</u> Concur. See page 33.	
Require personal long distance calls be made through the telephone operator as required by Montana Operations Manual, section 1.0911.20.	5
<u>Agency Reply:</u> Concur. See page 33.	
Discontinue the use of the uncleared collections accounting entity when the disposition of revenue is known.	6
<u>Agency Reply:</u> Concur. See page 34.	
Discontinue contracting legal intern services.	7
<u>Agency Reply:</u> Concur. See page 34.	
Implement an after-the-fact time reporting system that is based on actual payroll figures.	8
<u>Agency Reply:</u> Concur. See page 34.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Require employees to complete and submit a standard leave request form for approval as required by Montana Operations Manual, section 3-0305.	8
<u>Agency Reply:</u> Concur. See page 34.	
Obtain letters of approval from the Attorney General for counsel employed or retained by the department.	9
<u>Agency Reply:</u> Concur. See page 35.	
Define in writing the duties of their hearings reporters, specifically addressing the issue of providing transcripts and whether or not the providing of transcripts is to be included in their compensation.	10
<u>Agency Reply:</u> Do not concur. See page 35.	
Initiate procedures to correct the internal accounting control weaknesses noted above.	14
<u>Agency Reply:</u> Concur. See page 35.	
Comply with the above discussed motor carrier related statutes or propose changes in the statutes.	18
<u>Agency Reply:</u> Concur. See page 36.	
Comply with the above discussed railroad related statutes or propose changes in the statutes.	22
<u>Agency Reply:</u> Concur. See page 36.	
Comply with or seek clarification of the above discussed utility related statutes.	23
<u>Agency Reply:</u> Concur. See page 37.	

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Department of Public Service Regulation of the State of Montana as of June 30, 1978 and the related statements of operation for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Department of Public Service Regulation has not maintained a record of its general fixed assets and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in the accompanying financial statements.

In our opinion, the aforementioned financial statements present fairly the financial position of the Department of Public Service Regulation at June 30, 1978, and the results of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying Statement of Expenditures by Object is not necessary for a fair presentation of the financial statements but is presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

January 12, 1979

COMMENTS

INTRODUCTION

We performed a financial compliance audit of the Department of Public Service Regulation for the fiscal year ended June 30, 1978 at the request of the Legislative Audit Committee. Our objectives of this audit were to: (1) express an opinion as to the fairness of the department's financial statements, and (2) determine whether or not the department complied with applicable laws and regulations.

We thank the commissioners and staff for their cooperation and assistance during our audit.

BACKGROUND

Section 2-15-2601, MCA, established the Department of Public Service Regulation. The department is headed by five elected Public Service Commissioners. One of the commissioners is designated chairman by approval and consent of a majority of the commissioners.

The commission is responsible for the regulation and safety inspection of railroads, motor carriers, public utilities and pipelines within the state. The commission's responsibility is to assure the consuming public of safe, adequate and economical transportation and utility service at just and reasonable rates.

The department is divided into four divisions. The Centralized Services Division performs the administrative support functions of the department. The Legal

Division advises the commission in all matters requiring a legal interpretation or opinion. The Transportation Division exercises general supervisory control over the activities of all motor carriers and railroads. The Utility Division exercises general supervisory control over all public utilities.

EXPENDITURES

Expenditure Abatements

The department gives notice of utility hearings to the general public by means of legal publications in newspapers having general circulation in the area affected, as required by the commission's regulations. The department initially pays for the legal publications and is subsequently reimbursed by the utilities involved. The reimbursements are recorded as expenditure abatements by the department.

According to the Montana Operations Manual (MOM) 2-4060, expenditure abatements are collections representing the recovery of amounts erroneously expended or amounts expended solely as a convenience to others. Legal notices are recurring expenditures for the department, and any reimbursement should be recorded as revenue. In fiscal year 1977-78, the department received \$7,496 in reimbursements which were accounted for as expenditure abatements. This causes an understatement of expenditures and revenue for the year.

RECOMMENDATION

We recommend that the department record legal publication reimbursements as revenue.

Contingent Revolving Fund

The department uses a \$1,000 contingent revolving fund for paying travel advances to employees and for small expenditures. The department received approval for the fund in December 1977, and from that time until the end of the audit period, June 30, 1978, wrote only 17 checks from the fund.

The travel required by Public Service Commission employees and commissioners is such that normally the department is aware of travel requirements at least one week in advance. Considering this and the amount of activity in the fund, the state warrant system should adequately serve the needs of the department.

RECOMMENDATION

We recommend that the department close its contingent revolving fund and use the state warrant system for all disbursements.

Personal Vehicle Use Authorization

The department allowed reimbursement at 15 cents a mile for personal car mileage without obtaining a Personal Vehicle Use Authorization Form. The Adminis-

trative Rules of Montana (ARM) 2-2.4(1)-S450, which applies to Helena based state employees and exempts elected commission members, requires that an individual using a personal vehicle while conducting state business must obtain a Personal Vehicle Use Authorization Form issued by the Department of Highways dispatcher before being reimbursed at a rate higher than 14 cents. These forms are issued for the following reasons: (1) a motor pool vehicle is not available, or (2) the use of a personal vehicle is considered to be in the best interest of the state. Pursuant to section 2-18-503, MCA, if a Personal Vehicle Use Authorization Form is not approved by the Department of Highways, and the individual is authorized to use a personal vehicle even though a motor pool vehicle is available, a rate of 14 cents a mile shall be paid.

RECOMMENDATION

We recommend that the department properly reimburse personal car mileage in accordance with section 2-18-503, MCA.

Personal Telephone Use

The department allows commissioners and employees to make personal long distance calls over the State Telephone System (STS). When the telephone bill arrives, the caller reimburses the department for the personal calls made.

The Montana Operations Manual, section 1-0911.20, states that personal long distance calls will not be made from state telephones unless arrangements are made with the long distance telephone operator at the time the call is placed to have the call billed to the caller's home telephone or credit card, or to place the call collect.

RECOMMENDATION

We recommend that the department require personal long distance phone calls be made through the telephone operator as required by Montana Operations Manual, section 1.0911.20.

REVENUE

Uncleared Collections

The department processes all of its revenue through an uncleared collections accounting entity. The funds in the uncleared collections entity are transferred to the General Fund at each month end. This process has no effect on the year-end financial statements, yet creates the need for journal entries that otherwise would not be necessary. Section 17-2-102, MCA, states that accounting entities such as the one used by the department serve to classify, through the use of specific accounts within the fund, financial activities relating to: (a) expendable moneys received from federal or private sources, including .

trust income, which the state disburses to persons, associations or units of local government constituting other than the cost of operating the state government; or (b) collections, wherein the precise disposition is unknown at the time of collection. The revenues earned by the department are (a) eventually transferred to the general fund; and (b) are of such a nature that the disposition is known at the time of collection.

Department personnel explained that the reason for using the uncleared collections entity was that refunds of revenue can be made from this accounting entity. Refunds, however, may be processed through the general fund via control account 5105 (Revenue Refunds - Budgeted Revenue).

RECOMMENDATION

We recommend that the department discontinue the use of the uncleared collections accounting entity when the disposition of revenue is known.

PAYROLL

Contracted Services

The department operates a legal intern program in which law students are employed to work for the commission. The interns are hired under a contracted services relationship which does not provide for paying retirement contributions and F.I.C.A. The department is

likewise exempted from these costs, as well as workers compensation, health insurance, and state unemployment insurance.

ARM, 24-3.14BII(18)-Sl4160, notes three traits that must be present in a relationship in order for it to be considered a contract relationship and not an employer/employee relationship. These three traits are:

- (a) The individual is free from control and direction over the performance of service;
- (b) The service performed is either outside the normal course of the business, or that such service is performed outside of all the places of business of the enterprise for which such service is performed.
- (c) The individual is customarily engaged in an independently established trade, occupation, profession, or business.

During our field work we observed one such contracted services relationship and found it to be lacking in all three of the above traits. The department stated they are unable to hire the interns without a contract for service agreement because they do not have an authorized position available on the payroll. This problem was also noted in the prior audit report.

RECOMMENDATION

We recommend that the department discontinue contracting legal intern services.

Time and Leave Reporting

We found that the department's payroll and leave reporting system is not on an after-the-fact basis and lacks adequate controls. Prepayroll listings are submitted to Central Payroll before all time sheets have been received by the payroll clerk. This situation necessitates estimation of payroll figures. Section 2-18-405, MCA, requires that all state payrolls be based upon actual payroll figures submitted after the end of the payroll period and may not be based upon estimated payroll.

Employee leave request forms are not utilized by the department. Verbal approval is given to employees desiring leave, and time sheets are turned in at the end of the period to reflect the time taken off. The Montana Operations Manual, sections 3-0305 through 3-0321, indicate that employee leave request forms should be utilized and submitted for approval before the time is taken off, when possible. This problem was also noted in the prior audit report.

RECOMMENDATION

We recommend that the department:

1. Implement an after-the-fact time reporting system that is based on actual payroll figures.
2. Require employees to complete and submit a standard leave request form for approval as required by Montana Operations Manual, section 3-0305.

APPROVAL OF LEGAL COUNSEL

The department presently employs three attorneys. Two of the attorneys have not been designated special assistant Attorneys General. The department also retained lawyers on a contract basis in the past who were not approved by the Attorney General.

Section 69-14-132, MCA, mandates that the department seek approval of the Attorney General before employing any special legal counsel including occasional services by retained counsel. Without the Attorney General's approval, attorneys employed by the department have no specific legal authority to represent the state of Montana and any actions undertaken by them will be subject to challenge.

RECOMMENDATION

We recommend that the department obtain letters of approval from the Attorney General for counsel employed or retained by the department.

HEARING REPORTERS' COMPENSATION

The department employs two full time hearings reporters. The hearings reporters attend all hearings and take verbatim testimony. They transcribe the testimony of the hearings when necessary and a copy is given to the commission. Other interested parties must pay the specified costs to the hearings reporters to

obtain copies of the testimony. This payment is extra income to the hearings reporters, not the state.

It is an established procedure for hearings reporters to charge a fee for transcripts. They arrange for their own typists and copying with outside sources and pay for these services themselves.

It appears that under the present classification plan for department hearings reporters, their present procedure is proper if they are not receiving dual compensation.

RECOMMENDATION

We recommend that the department define in writing the duties of their hearings reporters, specifically addressing the issue of providing transcripts and whether or not the providing of transcripts is to be included in their compensation.

INTERNAL CONTROL

We have examined the financial statements of the Department of Public Service Regulation for the year ended June 30, 1978 and have issued our report thereon dated January 12, 1979. As part of our examination, we made a study and evaluation of the Department of Public Service Regulation's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other

auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our examination would not necessarily disclose all weaknesses in the system of internal accounting control because it was based upon selective tests of accounting records and related data. However, our study and evaluation disclosed conditions that we believe to be weaknesses in the internal accounting controls established by the department and the department's compliance with those controls.

Cash Receipts and Revenue

The department uses duplicate prenumbered receipt forms when cash is received. The original is given to the person making the remittance and the copy is used

by the department for posting. In our review of the cash receipts used, only 60 of 98 receipts could be accounted for. A record of receipts used and receipts available for use is not kept. Montana Operations Manual, section 2-1210.27, indicates that a record of receipts shall be kept by the department. Because the department does not account for the receipt numbers, little control is provided under the present use of prenumbered receipts.

There is an inadequate segregation of duties for the cash receipting functions. The accounting and collection clerk performs the following functions:

1. Prepares deposit tickets.
2. Prepares collection reports.
3. Issues cash receipts for cash remittances.
4. Files stamp applications.
5. Updates motor carrier files.
6. Issues Public Service Commission's highway authority stamps.
7. Files Transportation Division's annual reports.

Montana Operations Manual, section 2-1210.51, indicates that, as a minimum, a separation of duties should be maintained between cash receipt and deposit functions (numbers 1, 2, and 3 above) and posting to and/or maintaining subsidiary ledgers affected by cash transactions (numbers 4, 5, 6, and 7 above). Although we found no evidence of misuse, to provide adequate internal controls these functions should not be vested in the same person. This weakness was also noted in the prior audit report.

The department receives annual revenue totaling over \$500,000 from the companies it regulates. The majority of this revenue comes in the form of very small remittances (under \$100). All mail entering the department is sorted by the receptionist and distributed to the appropriate division. Remittances are not logged by the receptionist before being distributed. Remittances are then given to the collection clerk by each division, at which time they are restrictively endorsed and prepared for deposit. Internal control regarding this process of routing remittances is weak for the following reasons:

1. Generally, internal controls over cash are strongest when the fewest people possible have actual contact with the cash. A stamp of some sort on the accompanying documents or attachment of a small receipt, indicating the amount of money received would satisfy each division's information needs concerning remittances.
2. Montana Operations Manual, section 2-1210.24, indicates that all remittances coming through the mail should be logged in some fashion by the mail clerk.
3. Montana Operations Manual, section 2-1210.21, states "Negotiable instruments shall be restrictively endorsed at the time of initial receipt."

Improvement in these areas of internal control would significantly improve the control over receipts.

Expenditures

Invoices are not cancelled when paid. To avoid the possibility of duplicate payment, all invoices

should be cancelled. The department does not require notations of approval on receiving documents or invoices to assure that it pays only for items received.

Payroll

There is inadequate segregation of duties concerning payroll. The payroll clerk maintains time and attendance records, prepares payrolls, and maintains payroll status change forms. To provide adequate internal control, the same person who prepares the payroll should not also control payroll status changes.

Plant, Property, and Equipment

The department does not maintain inventory records on a current basis and did not take a physical inventory during the audit year. This problem was also noted in the prior audit report. Management Memorandum 70-17 requires that all state agencies record all fixed assets and take annual physical inventories.

The financial statements do not disclose balances for fixed assets and proper control over the assets is weakened when inventory records are not kept and an annual inventory is not taken.

RECOMMENDATION

We recommend that the department initiate procedures to correct the internal accounting control weaknesses noted above.

TRANSPORTATION COMPLIANCE

Class "C" Carrier Contracts

The department does not require Class "C" motor carriers to file the names and addresses of all parties with whom they have executed a contract or agreement. The CPA firm which audited the department in 1976 noted this same condition in its report relating to the department. Section 69-12-302, MCA, required during our audit period that such a list be filed annually with the department and stipulated that Class "C" carriers executing more than six contracts annually shall be considered Class "B" carriers. Because the department did not require compliance with this statute, Class "C" carriers could have exceeded the six contract limit yet not have been reclassified as Class "B" carriers. Class "B" carrier rates are regulated by the department while Class "C" carrier rates are not.

This statute was amended by the 46th Legislature in 1979 to allow a total of six contracts, each effective for a minimum of 180 days for Class "C" carriers; therefore, it is still essential that the department receive notification of contracts and agreements to determine proper classification.

Hearing Dates

Section 69-12-321, MCA, states that a hearing must be held not more than 60 days after receipt of an application for public convenience and necessity from a

Class "A", Class "B", and certain Class "C" carriers. Section 69-12-323, MCA, states that a final order must be issued within 90 days from and after receipt of such an application. We reviewed five transportation applications and orders and found the hearings were held from 69 to 106 days after receipt of application, and final orders were not issued until 108 to 164 days after receipt of application. Division personnel stated they are not complying because of the large number of applications and the limited size of their staff. The problem was also noted in the prior audit report.

This statute was amended by the 46th Legislature in 1979 to allow the commission to issue a final order within 180 days after the date of completed filing of the application.

Violations of Motor Carriers Statutes

The Transportation Division does not attempt to apply penalties for violations of statutes relating to motor carriers statutes other than through its enforcement officers.

Section 69-12-108, MCA, states that violators of Chapter 184, Laws of 1931, as amended shall be subject to a civil penalty to be collected and deposited to the General Fund by the department after notice and hearing. Fines may be assessed in an amount not less than \$25 nor more than \$500 for the first offense and not less

than \$100 nor more than \$1,000 for each subsequent offense.

Presently, the department uses cancellation of authority as a deterrent from further violations rather than assessing fines.

Annual Reports

Section 69-12-407, MCA, directs regulated motor carriers to file with the commission an annual report, prescribed by the commission, on or before March 31 of each year. Not all carriers file these reports by the deadline. This condition was also noted in the last audit. The commission has at times cancelled operating authority for not filing annual reports; however, during the audit year orders to show cause for not filing an annual report by March 31, 1978 were not prepared and sent out until September 1978.

Legal Publication Costs

The Transportation Division of the department does not receive reimbursement for the cost of publishing legal notices in newspapers around the state. Section 69-12-423, MCA, provides that the commission shall receive the cost of publishing notices of hearings, dealings with motor carrier rate schedules and with sales and transfers of certificates. The Transportation Division expended approximately \$6,200 toward legal notices during the audit year. Approximately \$600 of the \$6,200 expended dealt with rate schedules or sales and transfers and should have been reimbursed.

The Transportation Division has proposed legislation that will allow for the reimbursement of all legal publication costs expended for notification of any motor carrier hearings.

RECOMMENDATION

We recommend that the department comply with the above discussed motor carrier related statutes or propose changes in the statutes.

RAILROAD COMPLIANCE

Enforcement of Railroad Laws

The department checks compliance with Montana railroad laws only after a complaint is brought to its attention. Section 69-14-131, MCA, makes it the duty of the department to see that the provisions of all laws of this state concerning railroads are enforced and obeyed. Section 69-14-115(1), MCA, makes it the duty of the department to inquire into the observance by all railroads within Montana of the laws of the United States and of the state of Montana intended to safeguard the lives of railroad employees.

The administrator of the Transportation Division stated that the department needs additional personnel before it can check for violations of such laws. Also, the department's present staff lacks the expertise required to determine compliance with some of the more technical laws.

Investigation of Accidents

The department is required by section 69-14-112(2), MCA, to investigate every railroad accident in Montana resulting in death, injury requiring a physician's attention, or damage to property greater in value than \$2,000. The department is not presently investigating all applicable accidents.

The department relies on the Federal Railroad Administration to investigate many of the accidents. The transportation administrator stated that the department needs additional people with the expertise to investigate accidents to comply with this law.

In 1979, the department requested funding for additional staff to enable compliance with this statute. The Appropriations Subcommittee denied the request, but the subcommittee sponsored legislation to authorize but not require the department to investigate railroad accidents. This legislation was defeated.

Public Notices

The department publishes for one day notices of proposed changes in freight rates and classifications in as many as four daily Montana newspapers in the area affected by the notice. This is contrary to section 69-14-305, MCA, which requires the department to publish ten days notice of a time and place where the department will determine the rates and classifications, in two daily newspapers, one being the Helena newspaper.

Notice of a railroad schedule that has been made or revised is published by the department for one day in four or five daily Montana newspapers in the area affected by the notice. This is contrary to section 69-14-308, MCA, which requires the department to publish notice of a railroad schedule that has been made or revised for two successive weeks in a Helena newspaper. A recommendation pertaining to this statute was contained in the prior audit report.

Department officials stated that publishing such notices only in the newspapers required by this statute would not provide adequate coverage throughout Montana. They also stated that publishing such notices for the length of time required would cost far more than the department's budget would allow.

Department Annual Reports

Section 69-14-115(2), MCA, requires the department to set out in its annual report, the effort it has made to carry out the provisions of this section, the results thereof, and the steps it has taken to prosecute violations. We found that the department does not include these requirements in its annual reports. This was also noted in the prior audit report. The Centralized Services Division administrator stated that the department follows the guidelines set forth by the Governor's Office as to the contents of its annual report.

This statute also requires the department to send a copy of its annual report to the secretary of the U.S. Department of Transportation. The department does not send the report. One of the department attorneys stated that the Department of Transportation is primarily interested in safety and there are better means of portraying such information than in an annual report.

Time Allowed For Investigations

It usually takes the department longer than 60 days to complete an investigation initiated by the department or resulting from a complaint of a rate, classification, or rule pertaining to the transportation of freight by railroads. Section 69-14-114, MCA, states that the department must, within 60 days after the commencement of an investigation on the department's initiative, or after the filing with the department of a complaint, proceed to investigate and determine the justness and reasonableness of any classification, rate, regulation, or order made by the department.

The Transportation Division administrator said that at least 40 of the 60 days are normally used in waiting for responses and giving notification of a hearing. All interested parties have 20 days to respond to the complaint or reason for the investigation according to ARM, 38-2.2(26)-P2280. If a party does not agree with the allegations causing the investigation, a hearing date must be set and notice of the hearing must

be served upon all parties at least 20 days prior to the hearing according to ARM, 38-2.2(50)-P2470. The administrator said the department's agenda calendar is planned two months in advance which makes it even more difficult to schedule a hearing and serve notices within the time limitations.

RECOMMENDATION

We recommend that the department comply with the above discussed railroad related statutes or propose changes in the statutes.

UTILITY COMPLIANCE

Consumer Counsel Tax Returns

Although section 69-1-223, MCA, states that all regulated companies shall submit a copy of their consumer counsel tax returns to the department, the department does not require all regulated companies to file a copy of their returns. Some of the larger regulated companies send a copy of their returns to the department, but the department does not use them.

The administrators of the department stated that they have no need for the returns. If this is the case, the department should seek legislation deleting the requirement.

Annual Reports

Section 69-3-203, MCA, states that all utilities shall file an annual report with the department by

March 31 if accounting on a calendar year or by September 30 if accounting on a fiscal year. We found 34 utilities had not filed their annual reports with the department within the time prescribed. This represents approximately 17 percent of the utilities which were not in compliance.

Section 69-3-206, MCA, states that utilities which fail to submit required data to the department shall be subject to a fine of \$100 to \$1,000. The department has not requested the annual reports from the late utilities and has not sought applicable penalties.

Classifications for Public Utilities

Section 69-3-204, MCA, directs the department to collect \$1.50 for each classification for public utilities. Department officials are unsure of the meaning of "classification" and are not collecting the fees.

RECOMMENDATION

We recommend that the department comply with or seek clarification of the above discussed utility related statutes.

Prior Audit Recommendations

The June 30, 1976 audit report on the Department of Public Service Regulation contained 38 recommendations to the department. The following table shows the status of implementation of the prior audit recommendations by compliance area within the department.

<u>Area</u>	<u>Implemented</u>	<u>Number of Recommendations</u>		<u>Total</u>
		<u>Not Implemented</u> ²	<u>Not Applicable</u> ³	
Centralized Services ¹	16	5		21
Utility Compliance	4		1	5
Transportation Compliance	3	4		7
Railroad Compliance	<u>2</u>	<u>3</u>	<u>—</u>	<u>5</u>
	<u>25</u>	<u>12</u>	<u>1</u>	<u>38</u>

¹ Includes those recommendations that did not solely apply to one of the compliance areas.

² The department did not concur with 4 of these recommendations.

³ One prior recommendation did not apply to our audit because 1977 legislation repealed the applicable statute.

This report restated those significant recommendations which the department has not implemented or for which the department has not taken adequate corrective action.

FINANCIAL STATEMENTS



DEPARTMENT OF PUBLIC SERVICE REGULATION
COMBINED BALANCE SHEET
ALL FUNDS
JUNE 30, 1978

	<u>General Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>Federal and Private Revenue Fund</u>
<u>ASSETS</u>			
Revolving Fund Cash	\$1,000		
Available to Pay Accrued Expenditures	3,644		
Accounts Receivable - Dishonored Checks		\$ 5	
TOTAL ASSETS	<u>\$4,644</u>	<u>\$ 5</u>	<u>-0-</u>
<u>LIABILITIES</u>			
Accrual Expenditures	\$3,644		
Uncleared Collections		\$ 5	
TOTAL LIABILITIES	<u>\$3,644</u>	<u>\$ 5</u>	<u>-0-</u>
<u>RESERVE AND FUND BALANCE</u>			
Reserve for Revolving Fund	\$1,000		
Fund Balance	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL LIABILITIES, RESERVES AND FUND BALANCE	<u>\$4,644</u>	<u>\$ 5</u>	<u>-0-</u>

DEPARTMENT OF PUBLIC SERVICE REGULATION
STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES
ALL FUNDS
FISCAL YEAR ENDED JUNE 30, 1978

<u>Revenue Category</u>	<u>General Fund</u>		<u>Federal and Private Revenue Fund</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
LICENSES AND PERMITS				
Motor Carriers	\$400,636	\$531,028		
SERVICE FEES				
Filing	\$ 6,543	4,662		
FEDERAL ASSISTANCE				
Department of Transportation				
Gas Pipeline Safety	_____	_____	\$16,000	\$15,461
GRAND TOTAL	<u>\$407,179</u>	<u>\$535,690</u>	<u>\$16,000</u>	<u>\$15,461</u>

DEPARTMENT OF PUBLIC SERVICE REGULATION
STATEMENT OF EXPENDITURES COMPARED TO APPROPRIATIONS
ALL FUNDS
FISCAL YEAR ENDED JUNE 30, 1978

<u>Fund</u>	<u>Public Service Regulation Program</u>
General Fund	
Appropriations	\$813,601
Amendments	-0-
Total Available	<u>813,601</u>
Expended	<u>811,883</u>
Unexpended Balance	<u>\$ 1,718</u>
 Federal and Private Revenue Fund	
Appropriations	\$ 16,000
Amendments	<u>7,263</u>
Total Available	<u>23,263</u>
Expended	<u>15,461</u>
Unexpended	<u>\$ 7,802</u>
 Program Totals	
Appropriations	\$829,601
Amendments	<u>7,263</u>
Total Available	<u>836,864</u>
Expended	<u>827,344</u>
Unexpended Balance	<u>\$ 9,520</u>

DEPARTMENT OF PUBLIC SERVICE REGULATION
STATEMENT OF CHANGES IN FUND BALANCES
ALL FUNDS
FISCAL YEAR ENDED JUNE 30, 1978

	General Fund	Federal and Private Revenue Fund
FUND BALANCE, July 1, 1977	\$ -0-	\$ -0-
ADDITIONS:		
Appropriations	813,601	
Revenue and Income	535,690	15,461
Expenditures Charged to Prior Years	17,220	
Balance and Additions	<u>1,366,511</u>	<u>15,461</u>
DEDUCTIONS:		
Expenditures and Withdrawals	811,883	15,461
Prior Year Expenditure Adjustment	17,220	
Revenue Transferred to Consolidated Entity	535,690	
Reversions	1,718	
Total Deductions	<u>1,366,511</u>	<u>15,461</u>
FUND BALANCE, June 30, 1978	<u>\$ -0-</u>	<u>\$ -0-</u>

DEPARTMENT OF PUBLIC SERVICE REGULATION
STATEMENT OF EXPENDITURES BY OBJECT
ALL FUNDS
FISCAL YEAR ENDED JUNE 30, 1978

Public Service
Regulation Program

PERSONAL SERVICES

Salaries	\$571,375
Employee Benefits	<u>76,426</u>
Total	<u>647,801</u>

OPERATING EXPENSES

Contracted Services	42,691
Supplies and Materials	11,614
Communications	19,950
Travel	29,890
Rent	43,738
Utilities	3,127
Repair and Maintenance	3,810
Other Expenses	<u>11,867</u>
Total	<u>166,687</u>

EQUIPMENT

10,921

CAPITAL OUTLAY

1,935

TOTAL EXPENDITURES

\$827,344

DEPARTMENT OF PUBLIC SERVICE REGULATION
NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

The state of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as "That method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received as cash. At the end of the fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by law." (Montana Operations Manual 2-0240.40)

General Fixed Assets and Depreciation

General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. The department has not maintained any record of its general fixed assets, and depreciation is not provided on general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over into

a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1978, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. RETIREMENT PLAN

The department employees are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 5.95 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages. The department incurred pension costs of \$32,831 during fiscal year 1977-78. The state's policy is to fund accrued pension costs.

3. LEASE AGREEMENTS

The department entered into a five year building lease agreement which provides for minimum future rental payments of \$2,600 per month through December 31, 1980. This amount is subject to change based on the annual property taxes. For the audit year the department paid \$36,660 at \$3,055 per month.

In addition, during the audit year the department leased under lease agreements of one year or less, equipment at a cost of \$6,684.

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AGENCY REPLY

PUBLIC SERVICE COMMISSION

1227 11th Avenue • Helena, Montana 59601

Telephone: (406) 449-3007 or 449-3008

Gordon Bollinger, Chairman
Clyde Jarvis
Thomas J. Schneider
James R. Shea
George Turman

April 9, 1979

RECEIVED

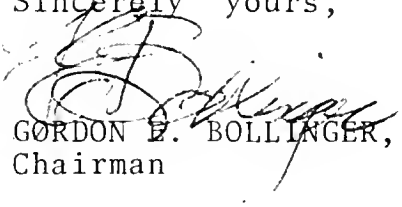
APR 9 1979

Mr. Morris L. Brusett,
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

Enclosed are the responses to the audit performed
of the Department of Public Service Regulation.

Sincerely yours,



GORDON E. BOLLINGER,
Chairman

GEB/mc
Enc.



RESPONSE
LEGISLATIVE AUDIT
JUNE 30, 1978

EXPENDITURES

1. EXPENDITURE ABATEMENTS

RECOMMENDATION: That the department record legal publication reimbursements as revenue.

RESPONSE:

Concur. HB 688 has passed the House and Senate, and upon approval of the Governor, should correct this problem.

2. CONTINGENT REVOLVING FUND

RECOMMENDATION: That the department close its contingent revolving fund and use the state warrant system for all disbursements.

RESPONSE:

Concur. The Contingent Revolving Fund will be closed by the end of the Fiscal Year.

3. PERSONAL VEHICLE USE AUTHORIZATION

RECOMMENDATION: That the department properly reimburse personal car mileage in accordance with section 2-18-503, MCA.

RESPONSE:

Concur. Except for one instance, the Commission has followed section 2-18-503, MCA.

4. PERSONAL TELEPHONE USE

RECOMMENDATION: That the department require personal long distance phone calls be made through the telephone operator as required by Montana Operations Manual, section 1.0911.20.

RESPONSE:

Concur. The Department will comply with Montana Operations Manual, Section 1.0911.20.

REVENUE

1. UNCLEARED COLLECTIONS

RECOMMENDATION: That the department discontinue the use of the uncleared collections accounting entity when the disposition of revenue is known.

RESPONSE:

Concur. The Department has already implemented the recommendation.

PAYROLL

1. CONTRACTED SERVICES

RECOMMENDATION: The department discontinue contracting legal intern services.

RESPONSE:

Concur. The Commission will comply with the appropriate Federal and State statutes and State administrative rules.

2. TIME AND LEAVE REPORTING

- RECOMMENDATION:
1. Implement an after-the-fact time reporting system that is based on actual payroll figures.
 2. Require employees to complete and submit a standard leave request form for approval as required by Montana Operations Manual, section 3-0305.

RESPONSE:

1. Concur. The department has already implemented.
2. Concur. The department will comply with Montana Operations Manual, section 3-0305.

APPROVAL OF LEGAL COUNSEL

RECOMMENDATION: That the department obtain letters of approval from the Attorney General for counsel employed or retained by the department.

APPROVAL OF LEGAL COUNSEL (cont.)

RESPONSE:

Concur. This has been completed.

HEARING REPORTERS COMPENSATION

RECOMMENDATION: That the department define in writing the duties of their hearing reporters, specifically addressing the issue of providing transcripts and whether or not the providing of transcripts is to be included in their compensation.

RESPONSE:

Do not concur. In accordance with Commission rule on transcripts, ARM 38-2.2(2)-P2060, and the practices of the other state agencies and the District Court Reporters, the Commission feels our court reporters are in compliance. If further changes to the present policy are required, a state-wide policy or law should be implemented which affects all court reporters uniformly.

INTERNAL CONTROL

RECOMMENDATION: That the department initiate procedures to correct the internal accounting control weaknesses noted above.

RESPONSE:

1. Cash Receipts and Revenue - Concur. The department will undertake an implementation of MOM chapter 2-1210.24, 2-1210.27 and 2-1210.28.

2. Expenditures - Concur. Invoices will be cancelled when paid.

3. Payroll - Concur. The Administrator of Centralized Services will review at random intervals the leave records of the personnel. The Administrator of Centralized Services, presently reviews all payroll status changes and pre-payroll listings, and the Executive Director and Chairman also review the pre-payroll listings and sign same.

4. Plant, Property, and Equipment - Concur. A master inventory control list has been established and the Administrator, Centralized Services, has taken steps to bring the

4. Plant, Property, and Equipment (cont.)

list up to date and maintain the list on a current basis. A physical inventory will be taken each year.

TRANSPORTATION COMPLIANCE

RECOMMENDATION: That the department comply with the discussed motor carrier related statutes or propose changes in the statutes.

RESPONSE:

1. Class "C" Carrier Contracts - Concur. As noted in the audit report, the statute was amended by the 46th Legislature in 1979 and the Statute will be followed.

2. Hearing Dates - Concur. As noted in the audit report, the statute was amended by the 46th Legislature in 1979, and statute will be followed.

3. Violations of Motor Carriers Statutes - Concur. The Commission feels that cancellation of a certificate has a greater impact on carriers. A statute will be proposed to the 47th Legislature for an amended law.

4. Annual Reports - Concur. While there is nothing in the statute or rules as to when the Order to Show Cause must be mailed, the Commission will make every effort to do so in a timely manner.

5. Legal Publication Costs - Concur. Statute changed by the 46th Legislature in 1979, and the new statute will be followed.

RAILROAD COMPLIANCE

RECOMMENDATION: That the department comply with the discussed railroad related statutes or propose changes in the statutes.

RESPONSE:

1. Enforcement of Railroad Laws and

2. Investigation of Accidents - Concur. As noted in the report, the 46th Legislature in 1979 did not fund or remove mandatory enforcement.

3. Public Notices - Concur. The Commission will propose a change in the statute.

RAILROAD COMPLIANCE (cont.)

4. Department Annual Reports - Concur. The Commission will propose a change to the statute.

5. Time Allowed for Investigations - Concur. The Commission will propose a change to the statute.

UTILITY COMPLIANCE

RECOMMENDATION: That the department comply with or seek clarification of the discussed utility related statutes.

RESPONSE:

1. Consumer Counsel Tax Returns - Concur. The Commission will propose a change to the statute.

2. Annual Reports - Concur. The Commission will propose a change to the statute.

3. Classifications for Public Utilities - Concur. The Commission will propose a change to the statute.



